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The Conference Board
845 Third Avenue
New York, N.Y. 10022

Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

April, 1983

The Conference Board Survey of Financial Indicators

April, 1983

Introductory Note: This is the fourteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

The fourteenth semiannual survey of Financial Indicators and Corporate Financing Plans took place during a period in which the recovery that was anticipated by the members of the forecasting panel in the October, 1982, survey appeared to be under way. There were still, however, major differences among professional economists as to the strength and durability of the recovery. Despite a continuation of what seemed to be unusually high "real" interest rates, the panel sees a sustainable recovery at least through 1984. Among the main conclusions of the 36 senior financial executives of leading U.S. nonfinancial corporations who participated in this survey:

- The U.S. economy will grow at an average rate of 2.4 percent in 1983 (or between 4 percent and 5 percent from the fourth quarter of 1982 to the fourth quarter of 1983), and at an average rate of 4.1 percent in 1984.
- Inflation will rise somewhat with the recovery, but will do so at rates well below those foreseen by the panel as recently as October, 1982.
- The five-year outlook for inflation is substantially lower than the actual average rate of inflation for the past decade.
- As profits revive in coming months, companies intend to rely heavily on internally generated funds that rose substantially as a percentage of total corporate funds during the past six-month period.
- Although it is expected to weaken against the German mark and the Japanese yen, the U.S. dollar will remain strong relative to other currencies; and no substantial change is anticipated in the dollar price of gold, which is often a barometer of confidence in the dollar and other currencies.

U.S. Financial Indicators

A number of experts have raised questions as to whether the sharp swing in inventories that is likely to occur in the first half of 1983, and the rapid rate of growth of money, will result in an unsustainably high rate of growth in the economy. The panel, however, does not see a sharp "snapback" in the velocity of money, and the panel's estimate of nominal GNP remains well below double-digit figures for the year 1983. No panel member foresees real growth of 6 percent annually for either 1983 or 1984, and only one panel member sees real growth reaching 4 percent for the year 1983 as a whole. Similarly, no panel member sees a recession in either year—the lowest forecast rate of growth for 1984 is 1.5 percent. (These estimates are broadly in line with the October 1982 survey findings).

With respect to the outlook for inflation in 1983 and 1984, no panel member sees it as a serious problem in either year. Only two executives sees the GNP deflator rising as fast as 7 percent annually, and then only in 1984. Since the last survey, the average rate of inflation for 1983 has been lowered from 6.1 percent to 4.4 percent, and for 1984 from 6.2 percent to 5.3 percent.

In line with this more optimistic outlook for inflation, expectations regarding both short-term and long-term interest rates have been lowered from last October. The Aaa rate is expected to average 10.9 percent in 1983 (as against a forecast of 12.2 percent as recently as October, 1982), and the prime rate will average 10.3 percent. A normal yield curve, with short-term rates below long-term interest rates, is expected for both 1983 and 1984.

Reassessing Inflation

The October, 1982, survey hinted that a fundamental reassessment of inflation seemed to be taking place and, indeed, this seems to have happened. Panel members have, for the second consecutive time, lowered their estimates of inflation by approximately 1 percent or more for the forecast period. Moreover, for the first time, survey participants provided their estimates of inflation for the next five-year period, and the results suggest that corporate expectations of inflation have indeed been lowered. According to the

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of survey)	Outlook: Average June '83 (2nd Q GNP)	Outlook: Average Sept. '83 (3rd Q GNP)	Outlook: Average 1983	Outlook: Average 1984
New Aaa industrial rate (%)	11.3	10.8	10.6	10.9	10.7
Prime rate (%)	11.0	10.2	10.0	10.3	10.2
Dow-Jones Average (Index)	1,064.0	1,111.0	1,143.0	1,125.0	1,208.0
Real GNP (%)	-2.5	2.5	3.7	2.4	4.1
GNP deflator (%)	4.3	4.3	4.5	4.4	5.3

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	79	11	3	12	1	7
External Funds	21	11	1	7	3	12
	100%					
(b) Composition of *External Funds*						
Net bond issues	30.8	10	3	7	0	5
Private placements	10.4	18	0	2	1	4
Net new equity	18.7	15	1	3	3	3
Bank term loans	8.1	20	1	2	0	2
Bank short-term loans	5.9	21	1	0	1	2
Commercial paper	14.1	16	1	2	0	6
Other	12.0	19	0	2	0	4
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1983:

	Latest Available 3/1/83	Expected Change (Number of Respondents): By June 30, 1983 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By September 30, 1983 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8148	18	6	1	6	0	16	8	1	6	0
British pound	1.51	8	9	0	11	3	10	9	3	5	3
German mark	.4103	4	19	8	0	0	3	12	15	1	1
Japanese yen	.0042	3	19	9	0	0	2	14	13	1	1
Gold	$414.00	6	8	4	5	7	4	7	5	7	6

31 executives who provided their estimates of inflation, the average rate for the coming five-year period will be 5.6 percent annually. This rate is not only substantially below the rate of 8.1 percent for the preceding five year period (1978-1982), but it is also well below the average annual rate of 7 percent for the period 1973 to 1977. Only one executive sees the rate below 4 percent (at 2.5 percent), while four see it averaging 7 percent or more (the highest being 8.2 percent).

The Panel's Five-Year Inflation Outlook

	Less than 4 percent	*4 percent but less than 5 percent*	*5 percent but less than 6 percent*	*6 percent but less than 7 percent*	*7 percent and above*
Number of Panel Members	1	5	15	6	4

Corporate Financing Plans—March 1, 1983 to February 29, 1984

After failing in three consecutive periods to "put their houses in order," companies in the survey were finally able to realize their plans to increase their reliance on internally generated funds. During the 12-month period from March 1, 1982, to February 28, 1983, internal funds averaged 79 percent of total corporate funds. This figure is well above the 75 percent average in the preceding 12-month period, and it is also more in line with the 80 percent average that existed during each year of the period 1975 to 1979. The relatively heavier reliance on internal funds is expected to continue in the coming 12-month period: Fifteen executives look for greater reliance on internal funds, while eight intend to place more reliance on external funds.

The external financing of companies in the survey was marked by a reduction in commercial paper and a greater reliance on equity, bank term loans, and long-term financing. A broadly similar external financing pattern is expected to continue in the coming 12-month period. Ten executives plan to place greater reliance on net bond financing, while six look for a reduction in their companies' reliance on commercial paper. In line with their expectations of relatively high stock prices, companies plan to continue to issue net new equity at rates only somewhat lower than in the past 12-month period.

The International Environment

After remaining surprisingly strong in the three preceding periods covered in the survey, the U.S. dollar finally weakened somewhat relative to the German mark and the Japanese yen. However, it remained strong relative to the British pound, the French franc, and other currencies.

The vast majority of financial executives whose companies engage in international operations look for both the mark and the yen to strengthen against the U.S. dollar over the next two quarters. Their views on the Canadian dollar and the British pound are mixed, although more executives see the pound depreciating than appreciating by June 30, while more see the Canadian dollar appreciating than depreciating.

The panel's views on the dollar price of gold are also "mixed" for both forecast periods. With the U.S. recovery apparently under way, the failure to look for a strong rise in the price of gold seems to underscore the panel's more optimistic outlook on inflation.

Vincent G. Massaro

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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

October, 1983

The Conference Board Survey of Financial Indicators

October, 1983

Introductory Note: This is the fifteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

Since the last (April, 1983) survey, the rates of real growth of the U.S. economy in the second and third quarters of 1983 have confirmed the panel's judgment that a solid recovery is under way, despite the continuation of what seem to be unusually high real interest rates.

This fifteenth semiannual survey of Financial Indicators and Corporate Financing Plans was made during a period in which the economic statistics were suggesting a sharp decline in the strength of the business recovery. However, the 35 senior financial executives who participated in this survey see the recovery continuing at a sustainable pace throughout the forecast period. According to the members of the panel:

- The U.S. recovery will grow at annual rates well over 4 percent in the fourth quarter of 1983 and throughout 1984; and, in their first look at 1985, they expect real economic growth to continue at an average rate of 4 percent annually.
- Inflation will not be a serious problem in 1984; nor will it take off again in 1985, which will mark the third year of expansion in the present business cycle.
- Companies intend to increase substantially their reliance on commercial paper, and they plan to reduce their reliance on long-term financing.
- The U.S. dollar is expected to weaken against most of the major currencies.

The U.S. Economy in 1984

The participating financial executives look for nominal GNP to increase at an annual rate of growth of approximately 10 percent in 1984 and, again, in 1985. The rise in nominal GNP will divide evenly between real growth and price increases in 1984, with both rising at rates of slightly over 5 percent. In line with the further cyclical expansion of the economy, it is expected that the GNP deflator will rise at 6 percent annually, and real GNP will increase by 4 percent in 1985.

No panel member sees inflation as a serious problem in 1984—only two executives see the GNP deflator rising at rates as high as 7–7.5 percent annually; and only seven executives think inflation will rise at rates that range between 7 and 8 percent in 1985.

Relatively little change is expected in both short-term and long-term interest rates throughout the forecast period. Moreover, a "normal" yield curve, with short-term rates remaining below long-term interest rates, is expected for both 1984 and 1985. The Aaa rate is expected to average 11.0 percent in 1984 against a prime rate of 10.7 percent; and to rise to an average of 11.6 percent in 1985, against a prime rate of 11.1 percent. No panel member thinks that the prime rate will average more than 12 percent in 1984; and only two executives are now anticipating a prime rate that will average 13 percent or more in 1985.

The continuation of real growth in the economy at a sustainable pace, along with the absence of serious pressures from rising interest rates, lead to a forecast of a Dow-Jones average that remains in the vicinity of 1300 throughout the next two years. Not a single executive looks for an average of less than 1200 in 1984.

A Changing Financing Pattern

The steep rise in the stock market that continued through the first nine months of 1983 allowed many companies to take further steps to "put

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their houses in order" through new equity issues. During the 12-month period from September 1, 1982, through August 31, 1983, net new equity issues averaged 31.2 percent of total external funds, by far the highest percentage of funds since this survey was initiated in 1976. Also, during the past year, the participating companies' internal funds averaged 77 percent of total corporate funds, a figure that is more in line with the 80 percent average that existed during each year of the period 1975 to 1979 (but had fallen as low as 73 percent, as reported in the October, 1982, survey).

New equity issues apparently were made in place of long-term debt issues, which fell from nearly 45 percent of total funds in the October, 1982, survey to 27.2 percent in this survey. The external financing of companies in the survey was also marked by a reduction in their reliance on commercial paper, which fell to 7.1 percent of total external funds.

In the coming 12-month period, however, the external financing pattern is expected to shift substantially from last year's pattern. Eight executives intend to place greater reliance on commercial paper, while twelve plan to reduce their reliance on net bond issues and private placements. The greater reliance on short-term funds planned by the financial executives in The Conference Board survey may be a sign that the U.S. economy has now reached the phase of the cycle where a stronger building of inventories is about to take place. These financing patterns differ from the pattern that is now expected for corporations as a whole. According to the information from the September 26 issue of *Moody's Bond Survey,* total prospective long-term financing of industrial corporations is roughly $20.8 billion, more than double the total prospective long-term financing figure of one year ago.

A Weaker Dollar Ahead

The U.S. dollar has continued to remain surprisingly strong against most major currencies. However, most of the financial executives whose companies engage in international operations anticipate that the British pound, the German mark, and the Japanese yen will all strengthen against the dollar over the next two quarters. Their views on the Canadian dollar are mixed, although several more executives see it appreciating than expect it to depreciate against the U.S. dollar.

The majority of panel members anticipate that the dollar price of gold will rise moderately during the forecast period ending March 31, 1984. Most of them, however, do not see a strong rise in the price of gold, since inflation in the United States is expected to remain under control.

Vincent G. Massaro

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of survey)	Outlook: Average Dec. '83 (4th Q GNP)	Outlook: Average March '84 (1st Q GNP)	Outlook: Average 1984	Outlook: Average 1985
New Aaa industrial rate (%)	11.6	11.6	11.4	11.0	11.6
Prime rate (%)	10.5	10.8	10.6	10.7	11.1
Dow-Jones Average (Index)	1,214.0	1,234.0	1,276.0	1,287.0	1,314.0
Real GNP (%)	8.7	4.8	4.4	5.0	4.0
GNP deflator (%)	4.5	4.7	5.0	5.2	6.0

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	77	12	4	8	0	7
External Funds	23	12	0	7	4	8
	100%					
(b) Composition of *External Funds*						
Net bond issues	24.0	11	0	4	1	8
Private placements	3.2	19	0	2	3	0
Net new equity	31.2	9	3	3	1	8
Bank term loans	17.6	15	1	1	3	4
Bank short-term loans	5.7	20	0	2	1	1
Commercial paper	7.1	13	2	6	1	2
Other	11.2	15	3	1	1	4
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1983.

	Latest Available 9/1/83	Expected Change (Number of Respondents) By Dec. 31, 1983: Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By March 31, 1984: Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8110	25	5	0	2	0	23	7	0	2	0
British pound	1.50	8	22	0	2	0	6	16	7	2	1
German mark	.3729	3	27	2	0	0	0	16	15	1	0
Japanese yen	.0041	4	25	2	1	0	1	14	14	2	1
Gold	$414.50	12	13	1	3	0	5	14	6	2	2

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Financial Indicators and Corporate Financing Plans:

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April, 1984

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The Conference Board Survey of Financial Indicators

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Two issues were viewed with increasing concern in the first quarter of 1984, the second year of economic recovery in the latest business cycle. The first issue was whether the U.S. economy had "turned the corner" on inflation, or whether the underlying or "core" rate of inflation was now close to 7-8 percent or, perhaps, higher. The second issue was whether the U.S. economy would experience a recession that would begin in 1985. These concerns were strengthened by the rapid rate of real growth in the first quarter, the rise in interest rates in March, and the apparent strengthening in the demand for short-term credit.

The majority of the 38 senior financial executives who participated in the sixteenth semiannual survey of Financial Indicators and Corporate Financing Plans:

- Look for an average rate of inflation of slightly less than 6 percent annually over the coming five-year period—well below the 8 percent rate that several other surveys of business executives have found;
- See real economic growth continuing through 1985, averaging 4.8 percent this year and 3.7 percent in 1985;
- Look for relatively little change in short-term and long-term interest rates, though the yield curve is expected to flatten by 1985;
- Expect all major currencies to strengthen against the U.S. dollar;
- Have apparently succeeded in "putting their houses in order," restoring internal financing to 81 percent of total corporate funds.

U.S. Financial Indicators

The participating financial executives see real economic growth continuing, at least through 1985. No executive looks for real economic growth to average less than 2 percent in either 1984 or 1985 .

Inflation is expected to rise, by nearly one percentage point, from an average of 4.7 percent in 1984 to 5.6 percent in 1985. Only one executive sees the rate of inflation reaching as high as 7 percent in 1985, the highest rate anticipated for any of the forecast periods.

In line with this view, short-term interest rates are expected to rise by an average of more than 1 percent, with the prime rate rising from an average of 11.3 percent in 1984 to 12.5 percent in 1985. The increase in short-term rates presumably reflects a further reliance on short-term credit in the third year of recovery, a normal occurrence in the financing cycle that mirrors the business cycle and its requirements. Long-term interest rates, however, are anticipated to rise only slightly, with the Aaa rate rising from an average of 12.3 percent in 1984 to 12.6 percent in 1985. The panel seems to be assuming that the present level of long-term interest rates has already discounted the cyclical rise in inflation that normally takes place at this stage of the cycle. (They also seem to be assuming that constructive action will be taken to reduce the Federal Government's deficit.)

An analysis of earlier surveys shows that the panel has generally underestimated inflation and interest rates when they were rising, and has overestimated inflation and interest rates when they were declining.

Reassessing Inflation

The average rate of inflation for the coming five-year period will be 5.9 percent annually, according to the 35 executives who provided their estimates of inflation. This rate is slightly higher than the average of 5.6 percent than the panel forecast last April, and, of course, it starts one year further into the recovery (thereby eliminating one year of low inflation immediately after the recession). The rate of 5.9 percent is well below the actual rates of inflation experienced during the two latest five-year periods: the average rate of inflation was 7.5 percent annually during 1979 to 1983; and the rate of inflation averaged 7.3 percent annually during the years 1974 to 1978. The majority (19) of panel members look for inflation to average at least 6 percent but less

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than 7 percent. The remaining estimates fall wihin a relatively narrow range: No executive sees the rate of inflation averaging more than 7.1 percent or less than 3.5 percent in the latest survey.

particular. The survey, surprisingly, does not yet show a pronounced movement toward either of these financing patterns, though there is a hint of an increase in corporate reliance on short-term bank loans.

The Panel's Five-Year Inflation Outlook

	less than 4 percent	*4 percent but less than 5 percent*	*5 percent but less than 6 percent*	*6 percent but less than 7 percent*	*7 percent and above*	*Range (percent)*
April, 1983 Number of panel members . .	1	5	15	6	4	2.5-8.2
April, 1984 Number of panel members . .	1	2	9	19	4	3.5-7.1

Corporate Financing Plans--March 1, 1984 to February 28, 1985

During the latest 12-month period, the companies participating in this survey have once again returned to a heavier reliance on internally generated funds. Internal funds constituted 81 percent of total corporate funds, a percentage that was more in line with the 80 percent average that existed in each year of the period 1975 to 1979, prior to the severe slowdown in U.S. economic activity.

The external financing pattern during the latest 12-month period was marked by an unusually heavy reliance on net new equity. Companies raised 30 percent of all external funds through new equity issues. The larger companies also started to rely more heavily on commercial paper, which constituted approximately 19 percent of total funds.

The business cycle has now reached the stage where companies should start to place relatively greater reliance on external funds, and on short-term credit in

The International Environment

There is unusually strong unanimity on the part of the financial executives whose companies engage in international operations that other currencies will strengthen against the U.S. dollar. For the second time in succession, and for the second time in the history of the survey, no other currency is expected to weaken against the U.S. dollar during the two forecast periods. In most cases, the majority of panel members see a moderate strengthening of other currencies against the dollar, with an appreciation in the range of 1 to 5 percent.

The majority of panel members also see a moderate rise in the U.S. dollar price of gold during both forecast periods. This moderate rise is consistent with the panel's expectation that there will also be only a moderate rise in inflation in the United States.

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Prime rate (%)	11.0	11.2	11.3	11.3	12.5
Dow-Jones Average (Index)	1,259.0	1,191.0	1,217.0	1,203.0	1,209.0
Real GNP (%)	4.5	4.4	4.2	4.8	3.7
GNP deflator (%)	3.9	4.7	5.1	4.7	5.6

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	81	18	4	9	0	5
External Funds	19	18	0	5	4	9
	100%					
(b) Composition of *External Funds*						
Net bond issues	17.2	22	0	2	0	4
Private placements	– 1.3	18	0	5	3	2
Net new equity	30.2	17	1	5	2	3
Bank term loans	19.3	19	1	3	1	4
Bank short-term loans	– 1.2	21	1	4	1	1
Commercial paper	16.8	19	2	2	1	4
Other	19.0	19	3	2	1	3
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

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	Latest Available 3/1/84	Expected Change: By June 30, 1984 Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By September 30, 1984 Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .7990	26	8	0	0	0	22	11	0	1	0
British pound	1.48	2	27	4	1	0	2	24	7	1	0
German mark	.3836	3	17	11	1	0	2	17	13	1	0
Japanese yen	.0042	5	21	6	1	0	4	17	10	2	0
Gold	$392.75	3	24	4	0	0	4	16	10	1	0

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